

Marilyn Carlson Nelson
Chair And Chief Executive Officer Of Carlson Companies, Inc.
Before The
Subcommittee On Consumer Affairs, Foreign Commerce & Tourism
Committee on Commerce, Science & Transportation
United States Senate

Hearing on the State of the Tourism Industry

October 12, 2001

Mr. Chairman and Members of the Subcommittee:

On behalf of the 124,000 U.S. employees of Carlson Companies, Inc., and the Travel Industry Association of America, I want to thank you for providing us with this opportunity to share our perspective on the state of our industry.

In a word, as a result of the tragic events of September 11, the state of the industry is "desperate." We need to get travelers traveling to keep working people working, and we need your help to do it now.

As you may know, our privately held company is one of the world's largest, global travel and hospitality companies. TIA is the national, non-profit organization representing all components of the \$582 billion travel industry. TIA's mission is to represent the whole of the U.S. travel industry to promote and facilitate increased travel to and within the United States. We hope that we can count on you to work with the entire industry to restore it to health.

SUMMARY

Before September 11, the U.S. travel industry was experiencing a 10 percent decline in business. By the end of September, Carlson travel businesses were off 35 percent. If this were to continue and were to hold true across the nation's travel and tourism industry, it would represent a potential loss of as many as 3.8 million jobs nationwide.

Under ordinary circumstances, we are and have to continue to be highly efficient to survive in a business affected by powerful market forces and characterized by fierce competition. Today, however, we are not confronting ordinary circumstances -- these are extraordinary times for all of us. The market simply cannot handle such an unforeseeable, catastrophic, and dislocating externality.

We at Carlson are private and fiercely independent. We have never sought

government assistance, but our employees, our franchisees, and we have suffered and will continue to suffer tremendous harm from this totally unforeseen calamity without short-term, immediate assistance from the federal government.

Simply put, Americans are not traveling. In our experience, Americans initially were staying at home primarily out of concern for their own safety. Now, however, they are concerned about a possible recession, the loss of their jobs, and the perceived need to conserve.

Unchecked, this crisis has the potential to put more than 2.2 million (3.8 million if the present falloff were to continue) Americans out of work in the next 60-90 days and to trigger a 3.6 percent decrease in GDP.

Mr. Chairman, we are not asking for a bailout for our business or our industry. Nor are we asking for measures that would only treat the symptoms and not the cause of the affliction we confront. Our industry desperately needs short-term and significant financial incentives to get Americans on planes, in hotels, and dining and using our great entertainment facilities. This will keep people employed, be a benefit to consumers, reduce costs for business, and enable travel agents, restaurants, hotels and resorts, and entertainment providers to survive.

We, our franchisees, our employees, and our industry desperately need three things:

- 1. *An immediate, focused and significant short-term stimulus package that will encourage the American public to travel and thus will help keep people employed,***
- 2. *Economic assistance for workers who already have been displaced, and***
- 3. *Liquidity to give our businesses a chance to regain their economic footing.***

We urge you and your colleagues on the Finance Committee to support S. 1500, introduced by Senators John Kyl and Zell Miller, as part of the economic stimulus package. This bill contains three important tax proposals that will provide travelers with an immediate incentive to travel and will help provide liquidity to our industry. Most importantly, this legislation provides a \$500 tax credit to encourage people to book travel by the end of the year. In addition, this Committee should consider implementing a comprehensive national promotional campaign to encourage visitors to travel to and throughout the United States. The Committee should also take steps to help small businesses and to provide a helping hand to displaced workers.

Without this kind of legislation, we fear a recession in our industry and a catastrophic loss of jobs. It seems clear that the cost of enacting the legislation will be far less than the cost that will be borne by federal, state and local governments in foregone tax collections and increased payments to help displaced workers if our industry collapses.

BACKGROUND ON INDUSTRY

Prior to September 11, more than 19,000,000 Americans were employed directly and indirectly in travel and travel-related jobs, with an estimated annual payroll of \$171,500,000,000. In recent years, the travel and tourism industry has grown to be the second largest industry in terms of the number of people directly employed and the third largest industry in the United States as measured by retail sales, with over \$582,000,000,000 in expenditures, generating over \$99,600,000,000 in federal, state, and local tax revenues in 2000. Moreover, the travel and tourism industry last year created a \$14,000,000,000 balance of trade surplus for the United States.

Today, the efforts of the travel and tourism industry and all levels of government -- working together to restore confidence among travelers -- have largely succeeded. While those efforts will continue, we believe the American public needs a major financial stimulus, an incentive, to travel, because it is no longer fear for personal safety, but primarily concerns about a recession, unemployment and the need to save and conserve that is keeping people at home. If we can provide this stimulus, it means keeping working people working and generating cash flow that can help stimulate a rebound in the Nation's economy.

How do we know what would help the industry? Let me tell you about our company, which is in virtually every segment of the business.

CARLSON PEOPLE AND COMPANIES

We and our franchisees employ approximately 124,000 people throughout the United States and 192,000 people worldwide. We also are a major supplier of the services that fuel hundreds of related businesses and provide many times the number of jobs we create, both in our home state of Minnesota and throughout the United States. We recognize that we sink or swim together. Our fates and theirs are intertwined.

We operate and franchise 1,205 travel agency businesses throughout the United States, under the Carlson Wagonlit Travel, Results Travel and Cruise Holidays brands.

Our 540 owned, operated and franchised domestic hotels include Radisson Hotels & Resorts, Country Inns and Suites By Carlson, Regent hotels, Park Plaza

and Park Inn Hotels.

Our Carlson Marketing Group is one of the worlds largest marketing companies, providing incentive travel for over 200,000 people a year.

We own and franchise a total of 749 restaurants in 47 states and 52 countries. These include 671 T.G.I. FRIDAYS, 53 PICK UP STIX, and 25 other concepts.

Our Radisson Seven Seas Cruise line, headquartered in Miami, Florida, is the world's premiere cruise line, operating 6 top of the line cruise ships.

In short, we embrace every aspect of the travel, lodging and dining industry (other than air and ground transportation services).

And our employees are among the best, hardest working people in the world. Notwithstanding the severity of what we all experienced on and after September 11, our people persevered to get the job done. I want to note with a great deal of pride that the owners and employees of our travel agencies worked night and day following the grounding of the airlines to assist stranded travelers with lodging and to rebook flights for them. In almost all cases, we did this without any additional compensation, at the same time that we were experiencing a 45% decline in business.

In particular, I want you to know of the extraordinary efforts of the staff at our Regent Hotel in downtown Manhattan, our Carlson Wagonlit people in the Pentagon who supported our government travelers, our airport Fridays restaurant people who served hungry passengers, and our hotel staffs in Canada and Europe, as well as here in the U.S., who accommodated stranded passengers. They are a credit to our industry and to our nation.

IMPACT ON OUR PEOPLE AND CARLSON

Travel

Overall, our business travel in the U.S. is down an average of 35% since September 11.

Before September 11, all of our travel agency businesses were severely impacted by the airline commission cutbacks.

Most of our franchisees are small, family owned businesses, employing 3 to 4 people at each location. They rely heavily on small business travelers and leisure travelers. Due to the discretionary nature of leisure travel, that segment of the business, alone, is down more than 45%.

All of these businesses operate in tremendously competitive markets, operating on razor thin margins of 1-2%. A sustained sales decline of only a few percent over a few months doesn't just represent an operating loss, it often means closing their doors.

If something isn't done quickly, I unfortunately can predict with confidence that many of our small travel agent franchisees will be closing their doors due to this unprecedented reduction in travel stemming from this disaster.

Hotels

Our hotels which are primarily dependent on business air travel have experienced a similar 35% decline.

While the numbers of hotels are great, consider a single hotel and its value to people. Here is the break down at a typical 300 room Radisson hotel which employs on average 200 people:

Management	15%	(60% female)
Food/Beverage	50%	(50% female)
Housekeeping	15 %	(90% female)
Front Office	10%	(60% female)
Maintenance	2%	(1% female)
Accounting/Purchasing/Store Room	7%	(50% female)
Sales	1%	(90% female)

We have a large, hard-working immigrant population in housekeeping and in our food and beverage division. Most employees in those 2 groups (which represent 65% of total hotel workers) are female, at the lower end of the wage scale, some are sole wage earners, and some are single mothers. Many have had little opportunity to have prepared financially for a lay off situation.

Furthermore, our "Typical Hotel" writes 500-600 checks per month to outside suppliers for various products and services. Among these are transfer suppliers (limo services/cab drivers); food suppliers; non- and alcoholic beverage suppliers; linen suppliers; uniform suppliers; laundry suppliers; furniture, carpet, and drapery suppliers; fixture suppliers (lamps/sinks/tubs/showers/toilets); cable TV and movie channel suppliers; china/glass/silverware suppliers; amenities suppliers (soaps, lotions, shower caps, shoe shine mitts, ashtrays, matches, etc.); office supply companies; IT suppliers; utility companies (electric/gas/water); waste removal suppliers; chemical suppliers; air conditioning/ electrical/plumbing suppliers; pest control suppliers; and gift shops (and their suppliers, including t-shirt vendors, candy bars, aspirin, magazines, books, and souvenirs).

Restaurants and Cruise

If things do not rapidly change, our restaurants expect losses stemming directly from this crisis in excess of 10 million dollars by the end of the year and we estimate that our Cruise business will suffer in excess of 7 million dollars in losses. If these losses continue, the economic fall out to our employees, small business franchisees and their employees will be staggering.

WHAT NEXT?

Without the kind of stimulus measures we have advocated, even if the current 35% falloff were to “improve” to a minus 20% long-term decline, such a calamitous fall-off would:

- Put more than 2.2 million Americans out of work, many of them in the next 60-90 days. (Compared to the 100,000 airline workers who have already lost their jobs.)
- Cause failure of and foreclosure on many hotels, sending a shock wave through the banking sector.
- Cause the loss of more than 100,000 U.S travel agents (who write 80% of airline tickets), thus exacerbating the problem.
- Compound the loss of U.S. restaurant worker jobs, already estimated to exceed 90,000 in September alone.
- Cost federal, state, and local governments more than \$20 billion in tax revenues.
- Reduce the U.S. GDP by 3.6%.

WHAT CAN CONGRESS DO TO HELP?

As I noted at the outset, we hope Congress will adopt an immediate, significant and focused, short-term stimulus package. We’re not seeking a bail out. TIA and our coalition partners support a six-part program that will help keep people working and will be good for all affected by this crisis. We ask Congress to--

1. Provide for a \$500 tax credit (\$1000 for taxpayers filing jointly) for enumerated personal travel expenses for travel originating and occurring within North America (airplane, cruise, train and bus tickets, hotel and motel accommodations, and rental cars, but not meals) through the end of

2002.

2. Restore full deductibility for those business entertainment expenses, including meals, that are now subject to a 50% deduction through the end of 2002. (The average business meal is less than \$20 and does not include any alcoholic beverages at lunchtime.)
3. Provide a workforce tax credit for training, retention, and hiring of travel and tourism industry workers; financial assistance to help employees meet COBRA payments and maintain their health insurance; and payroll tax relief for employers and employees.
4. Provide substantial federal funding, with private-sector support and input, for advertising campaigns to encourage travel to and originating within the United States.
5. Expand the SBA loan program to small businesses that would not otherwise qualify for the Economic Injury Disaster Loan Program, with loans to be available at the lowest possible loan rate.
6. Expand the allowance for the carry back of net operating losses for taxpayers in the travel and tourism industry beyond the current two-year limit for losses attributable to the period 9/12/01-12/31/02.

In short, we need short-term financial incentives to get Americans on planes, in hotels, dining, and using our great entertainment facilities. This will keep people employed, be a benefit to consumers, reduce costs for business and enable travel agents, restaurants, hotels and resorts and entertainment providers to survive.

Without this, we fear a recession and deficits at all levels of government as tax revenues decrease and the cost of helping displaced workers increases.

We look forward to working with you and your colleagues to get legislation enacted quickly to restore our industry to good health.

Thank you.